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Hog Production in Transition

2008

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Report Highlights:
The cost-price squeeze in the Canadian hog industry that has worsened over the past two years has resulted in a near record hog inventory drop and a dramatic loss in the number of hog farms in Canada. On April 1, 2008 total Canadian hog numbers showed the sharpest inventory decline in three decades according to Statistics Canada's latest measure of the hog inventory. Also, the official statistical agency reported that the number of hog farms in Canada fell almost 20% in the one-year period ending April 1, 2008. Ironically, as financial hardship impacts Canadian hog producers, the strong Canadian dollar is attracting increased imports of U.S. pork by Canada's retail and foodservice sector.

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Executive Summary

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The Hog Inventory Backgrounder

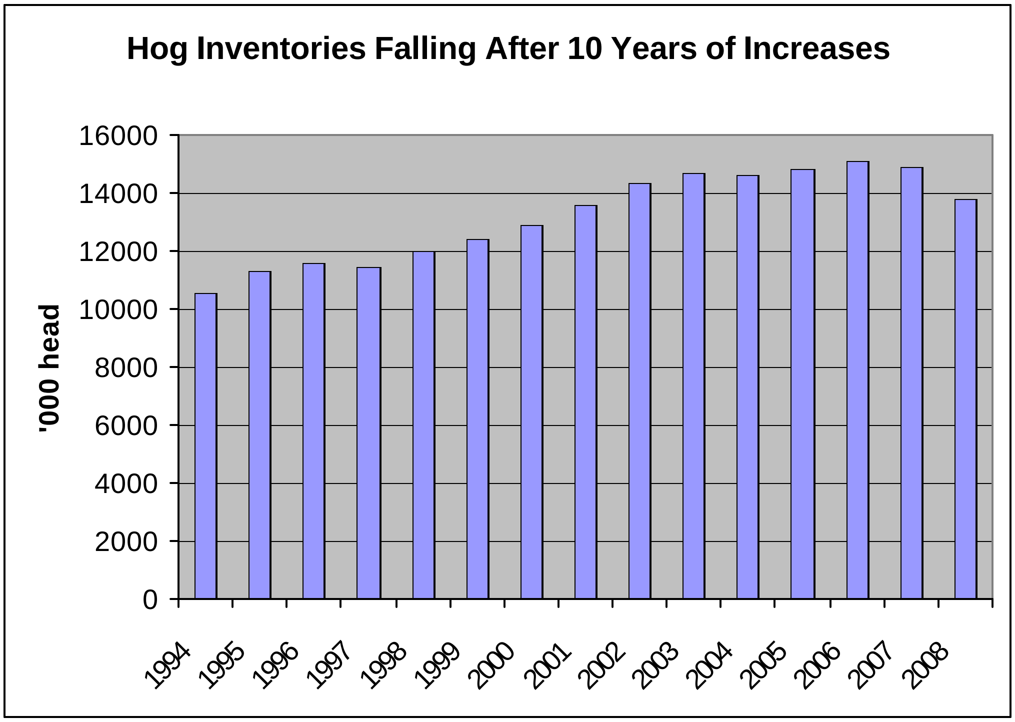
In the late 1990's, Canada's hog industry began a long run of inventory increases reflecting strong overseas demand for Canadian pork, aided by a low valued Canadian dollar, and strong U.S. demand for live swine and pork from Canada. The developments drove Canadian hog producers into an extended expansion phase that lasted ten years. However, by early 2006, an unprecedented rise in the Canadian dollar, linked to Canada's strong position in commodity and resource markets (i.e., energy) hampered the competitiveness of Canadian pork exports. As a result, hog market prices were under pressure as pork packers reacted to the realities of the higher Canadian dollar. In addition, increasing U.S. hog inventories dampened U.S. demand for Canadian pork. By 2007, rising feed costs, related to the high demand for corn for biofuels in North America and the increasing international demand for feed grains exacerbated declining market prices for slaughter hogs. Canadian hog industry leaders claimed it was the worst financial crisis the industry had witnessed.

GOC Response to Hog Industry Financial Crisis

In March 2008, responded to calls from the livestock industry for financial assistance by amending the *Agricultural Marketing Products Act* (AMPA) to give Canadian producers better access to cash advances. Changes to the Advance Payments Program (APP) through the amendments to AMPA now provide Canadian producers access up to C$400,000 (up to C$100,000 interest-free) in repayable advances. Cash advances under the APP are designed help producers with cash flow by giving them the flexibility to keep their products and sell them when market conditions are favorable. According to Agriculture and Agri-Food Canada (AAFC), producers will potentially have access to C$3.3 billion in repayable advances if all livestock producers take full advantage of the program. AAFC also announced a new C$50 million initiative with the Canadian Pork Council to deliver a sow cull program that will help restructure the industry to bring it in line with market realities including a goal to reduce the sow herd by 10 percent (see CA8008 for details). AAFC said it will review meat inspection user fees to assess their impact on competitiveness of the livestock sector and work to reduce costs and increase competitiveness under Canada's enhanced feed ban. This complements the federal government's last year's commitment of C$80 million to help the industry adjust to new feed standards.

The Current Hog Inventory

On April 1, 2008 Canadian farmers reported an estimated 13.0 million hogs on their farms on April 1, down 1.7 million, or 11.7%, from the same date in 2007. This was the largest year-over-year drop in three decades, and the fifth consecutive quarterly decline in total hog inventories.



Producers Fleeing the Industry

Although there is evidence that the number of Canadian hog famers has declined annually in the past 10 years, the drop was mostly due to the exit of the smaller, less efficient producer. In fact, the number of producers fell steadily from 2000 to 2005 during a period of moderate gain in the actual numbers of hogs raised, meaning that fewer producers were raising more hogs. However, in the past year, Canadian hog farmers fled the industry at an unprecedented rate. According to Statistics Canada, the total number of hog farms in Canada at April 1, 2008 fell to 8,820 farms, down 19.3% from the level one year earlier.

Rising Feed Costs Plus Lower Slaughter = Increased Live Exports to the U.S.

With rising feed costs, many Canadian hog producers are shifting to farrowing operations from the more traditional farrow-finish operations. As a result, the pace of export for live weaner pigs to the U.S. has accelerated. Canadian hog farmers exported an estimated 2.9 million hogs to the United States during the first three months of 2008, a 25.9% increase over the same period a year earlier. At the same time, the domestic slaughter of hogs in Canada slipped 1.1% compared with the first three months of 2007.

Manitoba Moratorium

In early April 2008, Manitoba's Conservation Minister Stan Struthers introduced amendments to the province's Environment Act that would legislate the permanent halt to hog industry expansion in three regions of the province. On March 3, 2008 Minister Stan Struthers released the Clean Environment Commission (CEC) report *Environmental Sustainability and Hog Production in Manitoba* that made 48 recommendations related to the sustainability of hog production in Manitoba. Following the report, the Minister announced a permanent moratorium on the construction of new or expanded hog operations in three regions of the province and new environmental restrictions in areas where expansion will be allowed (see CA8012). The 3 regions identified under the moratorium include Southeastern Manitoba, the Red River Valley Special Management Zone, and the Interlake. The remaining regions of the province would be subject to new, stricter requirements as recommended by the CEC including extending the ban on winter spreading of manure to all operations by 2013. "(The Manitoba) government has taken significant steps to protect water and to ensure the environmental sustainability of the industry," said Struthers. "This bill is part of an orderly process of establishing strong water protection following from the Clean Environment Commission's (CEC) report and this government's regulation to halt new or expanded hog barns."

Country of Origin Labeling; COOL Anxiety Pervades Canadian Hog Industry

Country of Origin Labeling (COOL) was part of the 2002 Farm Bill and directed the Secretary of Agriculture to promulgate regulations requiring U.S. retailers to notify their customers of the country of origin of covered commodities. Those commodities included the muscle cuts of beef, veal, lamb and pork (and the ground meats of the aforementioned). The implementation for meat was delayed twice. Canada's livestock producers remain anxious now that U.S. COOL is back on track with an updated version of the law contained in both the House and Senate versions of the 2007 Farm Bill, which passed last year but lingers awaiting conference committee. The top concern of Canadian cattle and hog farmers is how COOL labeling provisions might impact U.S. packer and processor purchases of Canadian live animals and primal meats if the labeling requirements of COOL require the segregation, sorting, and separate labeling of meat produced from Canadian animals. Canadian producers fear that the problems associated with the special handling of Canadian animals to comply with labeling regulations may either discourage U.S. packers from accepting Canadian animals altogether or discounting their price offerings to offset the additional costs of compliance. The potential for lower prices is not good news for a Canadian livestock sector that is struggling in a cost-price squeeze environment exacerbated by low market prices and high feed costs.

According to the farm press, producers at a recent Manitoba meeting said that several U.S. pork processors have already indicated they will stop handling Canadian hogs when COOL is implemented because of the potential need to segregate Canadian hogs. Other Manitoba producers allege that some U.S. hog finishers, those who feed young hogs to slaughter weight, are canceling contracts with their Manitoba suppliers of weanling pigs. In 2007, Canadian hog producers, mostly from Manitoba and Ontario, exported more than 10 million live hogs, slaughter and feeder, worth more than $650 million, to U.S. hog feeders and processors. The threat of the loss of the live swine market under COOL is causing strong concern among Canadian hog producers. For more stories on COOL and the Canadian livestock industry, see CA8003, CA8009, and CA8015.

Outlook

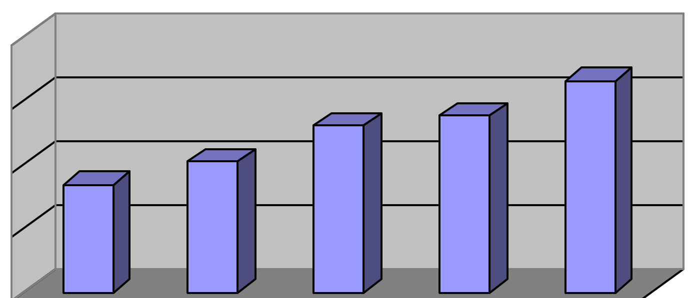
As forecast in Post's Semi-Annual Livestock report last February, the Canadian hog inventory is expected to fall about another 1.5 million head by the end of the 2008 to slightly above 12.0 million head. Given recently announced prospects for a lower western barley crop in 2008 and a lower corn crop in Eastern Canada due to reduced planting intentions, feed cost relief for hog producers seems unlikely this year.

Increased Pork Imports from the United States

Ironically, as financial hardship hits the hog producing community and the Canadian hog inventory shrinks, domestic hog slaughter declines, live swine exports increase, and record numbers of hog producers leave the industry, the strong purchasing power of the Canadian dollar is resulting in increased imports of pork from the United States.

U.S. pork sales to Canada increased 20% during 2007 to reach 164,334 MT (CWE) comprised mostly of fresh or chilled pork cuts, including back ribs and U.S. prepared pork including pre-packaged sausages. More than 80% of pork imported from the United States is destined for Ontario and British Columbia. For 2008, demand for U.S. pork in Canada is expected to increase reflecting the outlook for lower Canadian pork production and a continued strong Canadian dollar versus the U.S. dollar. In the January to February period of 2008 official Canadian trade statistics show imports of U.S. pork up 40% over the same period last year.

CANADA: Pork Imports (CWE) from the U.S.



	2003	2004	2005	2006	2007
Metric Tons	83,686	101,650	129,816	137,302	164,334